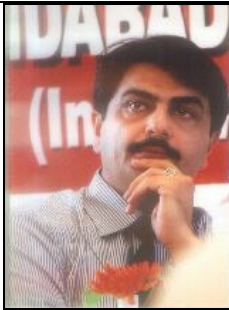


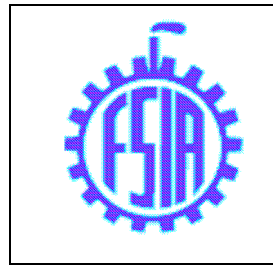
E-Circular dt November 24, 2008

## How Should the SME's utilize the

### “Credit cards” ?



Rajive Chawla  
President, FSIA



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Hon. Consultant, FSIA

### “Credit Cards” – Using them in Times of “Recession”,

#### → for your benefit

- ✓ Do you have a Credit Card ? Probably yes.
- ✓ Do you have 2 Credit Cards ? Probably yes.
- ✓ Do you have a Corporate Credit Card ? Maybe No
- ✓ Do you have more than 5 “personal” Credit Cards in your own name ?  
→ Then things may not be ok.
- ✓ Do you know you can have unsecured loan from the credit card company,  
with ZERO interest ????? And not pay interest the whole year long ??
- ✓ How should a SME use the Credit Cards for its own benefit ?

→ These and such questions are answered in this E-Circular for FSIA members



# Efficient Utilisation

The SME's can use the Credit Card for their own benefit.  
The Benefits can be immense.

## The Credit Cards, offer the following benefits for a SME unit ?

- a) **Use them – for all Director's car petrols.**
  - a. It becomes cash less
  - b. Less cash you handle, better it is.
  - c. Less cash your staff handles, better it is.
- b) **Use them – for Car/Motorcycle Fuel re-imbursments to the Staff,**
  - a. Now, instead of paying in cash, paying for the motorcycle / car fuel, by cheque to the credit card company may be a good idea.
  - b. Less cash you handle, better it is.
  - c. Chances of overbilling are reduced, if this is put in with some other checks and balances.
- c) **Use them - for even the Diesel filling for your Generators in your factories**
  - a. Sure,
  - b. If you get your Diesel from any petrol pump,
  - c. They are also ready to give you diesel, ( even in Drums ) , against credit card swipe.
  - d. So, immediately, you get Interest Free credit for about 1 month average.
  - e. Only thing is you must pay fully on time.
  - f. This becomes a rolling credit . Pay for previous month, incur for next month.
  - g. You also may get a 1 % to 5% discount **(Cash-back)** from the Indian-Oil/HP on the bill. Why ? since they are assured of Good business. (Today many credit cards offer this ).
- d) **Use them - for paying Telephone bills for your offices, factories & Mobiles**
  - a. Again , no need of tracking all telephone bills, received or not
  - b. No need of making so many cheques
  - c. No need to stand in queues ( your field staff wastes a lot of time on this, that is also your cost.)
  - d. No need of seeing that cheques are not bounced ( in case of financial strain during these tough times )
  - e. You also may get a 1 % to 2% discount from the Airtel/Vodafone/Reliance on the bill. Why ? since they are assured of timely payment.
- e) **Use them - for standing instructions for Electricity bills of Delhi offices**
  - a. Again , no need of tracking all electricity bills, received or not
  - b. No need of making so many cheques
  - c. No need of seeing that cheques are not bounced ( in case of financial strain during these tough times )

- f) **Use them - for Airline ticket booking**, railway booking, whenever you or your staff member are traveling
- a. This is something, all of you must be doing already.
  - b. If not – read on
    - i. You get better Ticket rates, when you book on-line yourself
    - ii. You get quick refund, in case of cancellation
    - iii. You get points / airline miles etc too
  - c. And it is cash less
  - d. And there is a automatic average one month revolving credit facility.

## The Benefits of Credit Cards, → a summary?

### **Benefit**

- a) Get **one month interest free Credit period**
- b) Be "**Cash less & paperless**", for cheque payments for so many telephone bills, electricity bills, petrol bills, and other expense you can shift to your credit card.
- c) Get **good discounts on Telephone** : Some telephone companies give discount, if you give standing instruction for payment via any Credit card )
- d) Get **good discounts even on Petrol** ( some Petrol companies give discount, if you Buy petrol from their chosen credit card partner , ex: HP-ICICI, IndianOil-Citibank and so on)
- e) **No hassle of remembering the due dates** of so many bills : Standing instruction helps you
- f) **Use the Earned Points →** Use the vouchers, or take those coveted Mobile phone / Laptops etc available against those points. Don't let them go waste.

## The Precaution ?? → A Big Precaution

BUT, just remember to repay in time.  
Else they will charge you very very heavily.

The Picture on the right side shows the Credit Card, as a Mouse Trap →



### **Why are we telling this Darker side now ?**

We are now discussing the “Darker side”, since we at FSIA have seen that a lot of SME's use credit card, recklessly,



### **Survey of Credit Card Interest/Penalty payment**

According to a survey,

- ✓ About 50% pay on time,
- ✓ About 36% have paid late fee / Cheque bouncing penalty at least once in last 12 months , and
- ✓ Balance 14% SME's / Individuals almost never pay in time. ( paying huge penalties)

I think it might be a similar picture with FSIA members too.

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### **What happens to those 14% people / SME's ?**

With Cash flow and bank credit becoming tardy, the Credit Cards may be another area for the FSIA members to watch for. Don't think that "you can delay the payment" or "It does not matter".

Infact, There is a lot of truth about people ruining their Peace of Mind + paying up a too much, due to missed payments and paying their credit card bills late. Fees pile up and interest payments grow, and before you know it its all out of control. After a while you may not even be able to pay the minimum payment amount.

If you don't do something fast - it could be the beginning of the so-called "Bad-Luck".

This could happen to our Managers, our Staff, our family member, or even to us, so read on, to know the ways, to be out of this mess.

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## Discussion on the Revolving Credit Facility

I have personally seen people not paying full. Instead paying for minimum balance only.

I as a Consultant to a number of clients, have seen the credit card bills not getting the right priority. Both ways, you activate the “Revolving Credit facility”.

Under this, a customer can pay just 5 per cent of the outstanding bill amount and roll over the balance credit to the next billing cycle.

That's convenient. So where's the catch? It comes in the form of transaction charges levied on such rollovers. After all, it has to be convenient for the lender as well.

In most cases, this charge for revolving credit or for the cash advance facility is generally 2.95% a month or 35% per annum. The rate is set high so that the guys who pay make up for the many who don't. Infact, the Month of October 2008, Citibank Statement showed the rate as 3.15%p.m. (37.8% annualized) and can be even 3.5% p.m.( 42.0% annualized), in case of default.

<< A scanned copy of a Instructions printed in finon the Credit card statement, back side >> is printed on next page. Have a look and come back here.

When the annual rate of interest is as high as 42% p.a. . it can be big trouble.

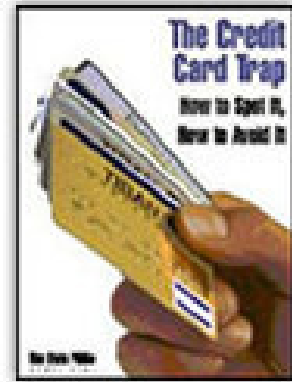
**Example : You purchase a merchandise for Rs. 50,000 only, via a Credit Card.**

### **Case 1 : Suppose, You pay 5% ( the minimum balance only)**

Consider this: if you have an outstanding worth Rs 50,000 on your credit card and chose to pay only the minimum amount due(5% only), it would take well over 40 years for you to clear the bill (based on the assumption that no other purchase is made on the card from hereon!). And never a cheque should bounce, and Never any other charge or annual charge is levied. → You don't believe it ? You may See cross check this in Excel yourself



Also, by that time, you would have paid more than Rs 140,000, which means an interest outgo of more than Rs 90,000 -- notwithstanding the annual fees, which would work out to at least another Rs 20,000.



## 1. FEES AND CHARGES

### a. Schedule of Charges:

The schedule of Charges as applicable on date is provided below:

Description of charges	Citibank Cards
Joining & Annual Fees	Fees applicable for both Primary and Additional Cardmembers will be communicated at the time of sourcing.
Cash Advance Fees	2.0% (subject to a minimum of Rs.300 and US \$7.5 at International ATMs)
Late Payment Charges (per month)	<ul style="list-style-type: none"><li>Rs.300 for bills upto Rs.10000</li><li>Rs.600 for bills from Rs. 10001 - 25000</li><li>Rs.700 for bills above Rs.25000</li></ul>
Over Credit Limit Charge	2.5% over Credit Limit (Subject to a minimum of Rs.500)
Cheque Bounce Charge	Rs.250 per returned cheque
Petrol Transaction Charge	2.5% (subject to a minimum of Rs.10) Waived at Indian Oil Outlets for transactions done on Citibank EDCs)
Railway Ticket Booking or Cancellation Surcharge (Counter booking)	2.5% of transaction value (subject to a minimum of Rs.25)
Railway Ticket Booking Surcharge (Internet booking)	<ul style="list-style-type: none"><li>1.8% of transaction value for regular transactions;</li><li>2.8% of transaction value for 3 EMI transaction</li></ul>
Statement Request (beyond 3 months)	Rs.100
Reissue of Lost, Stolen or Damaged Card	Rs.100
Outstation Cheque Charge	Rs.100 per cheque
Foreign Currency Transactions	Mark Up of 3.5%

Service tax, as notified by the Government of India, is applicable on all fees, interest and other charges and is subject to change, as per relevant regulations of the Government of India.

### b. Finance Charges (Interest Charges)

- Interest will be charged if you (the word 'you' refers to the Cardmember) do not pay back the previous bill in full and also on all Cash Advances from the date of transaction until the date of settlement.
- Your rate of interest initially is 3.15% per month (i.e.37.8% annualized). This can change periodically based on your spend, payback and utilization patterns. Your rate of interest can increase upto 3.5% per month (i.e.42.0% annualized), in case of default.
- All charges are dynamic and are subject to change based on Citibank's periodic review.

#### Illustrative Example for Interest Calculation:

Assuming that you have only partially paid your February outstanding, and your

The above is the actual scanned copy of a particular Credit Card company.  
Just See the [High Rate of Interest](#).

See the [Cheque Bouncing Charges](#)

See the [Late Payment Charges](#)

### **Case 2 : You pay 10% p.m**

Well, in that case, the payment period reduces considerably to around 11 years. But even then the total payment to the card company would be over Rs 71000, resulting in an interest outgo of Rs 21,000.

### **How does one avoid such a huge interest outgo? Two rules can come in very handy:**

#### **Rule # 1: Never pay only the minimum amount due. Pay more.**

The card company may ask for only 5 per cent of the outstanding amount, but nothing's stopping you from 10 per cent, or for that matter even 100 per cent.

Have a look at this chart, and the excel sheet can be provided on request to you.

Plan	Month no	Years	Repayment	intt @3% pm	principal
Plan 1	5% p.m.	40 yrs	124,992.62	74,995.57	50,000.00
Plan 2	10% p.m.	11 yrs	71,388.97	21,386.83	50,000.00
Plan 3	Rs. 2500 pm	2.5 yrs	77,500.00	27,497.32	50,000.00
Plan 4	Rs. 5000 pm	1 yr only	60,000.00	10,327.90	50,000.00
Plan 5	Rs. 10000 pm	6 mth only	55,018.00	5,018.52	50,000.00
Plan 6	100% first mth	1 mth only	50,000.00	NIL	50,000.00

#### **Rule # 2: Ask the card company for a lower interest rate.**

Is that possible? Yes. It so happens that if you have a clean repayment history (at least minimum balance) and your outstanding is less than 75 per cent of your credit limit, a number of your card company's competitors will let you transfer your balance for a lower interest rate of around 1.75 per cent per month (this rate, however, applies only for a limited period).

Most of the time, you don't have to go through the hassle of changing banks. You can ask your own company instead to match that rate. Let's assume you just can't increase your monthly outgo beyond the "minimum amount due", but manage to get the interest rate lowered to 1.75 per cent.



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### **Some Tips to keep your intt low**

- **Always pay your bill on time.** If something comes up and you aren't able to pay, you'll be penalized. Late payments mean you will be charged interest for the full month. Although you may think that the reason that has come up will justify a late payment, it doesn't justify a late payment in the eyes of your credit card company. Pay where and when you are supposed to pay - and do it on time. **Late payment fee is usually lumpsum Rs. 300 to Rs. 700 per instance**

• If you simply aren't able to pay your entire bill, you shouldn't worry about it but instead **Pay Atleast the minimum amount**. Even though you may be able to pay more at a later date, you should always make sure you pay at least the minimum. You can always add to your minimum amount by making an additional payment later. But beware as you will still be charged interest for the month.



- ✓ You should always **know what your interest rates are** and have a good idea of what your bill is going to be before you make a purchase. So many times, those who have credit cards make purchases, knowing they can't make the payments - then suffer when they get the bill and aren't able to pay it. This is called **instant gratification and a dangerous way to use a credit card**.
- ✓ Remember that if **you simply aren't able to make your payment, you should contact your credit card issuer immediately** and see if you can work something out. It's no use burying your head in the sand and hoping it will all go away.
- ✓ **Multiple Cards** : Do not go in for multiple cards because you may not be able to keep track of all the payments and your expenses. If you are being offered a card with higher credit limit, learn to say no if it gives you no greater benefit.
- ✓ **Cards with high Credit Limit**: Don't get big credit limit, unless you need it. High limit → higher the risk of loss, in case of loss of the card.



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## Final Conclusion for the SME members

The Credit Card is a LOAN

This is a Tool, you can use to manage your administration dept more efficiently

This can be converted into a Interest Free revolving Loan

But,

When you have a credit card, you should always make sure that you have the money to pay the bill, or at least the minimum amount, the minute it arrives. You will normally have a couple of weeks notice before the payment is due – make sure that you do not go over this payment date. This way, you'll remain in good standing with your company and you will remain happy enjoying the interest free credit and also the Rewards(out of reward points).

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**For queries, suggestions and feedback , you can e-mail us at :**

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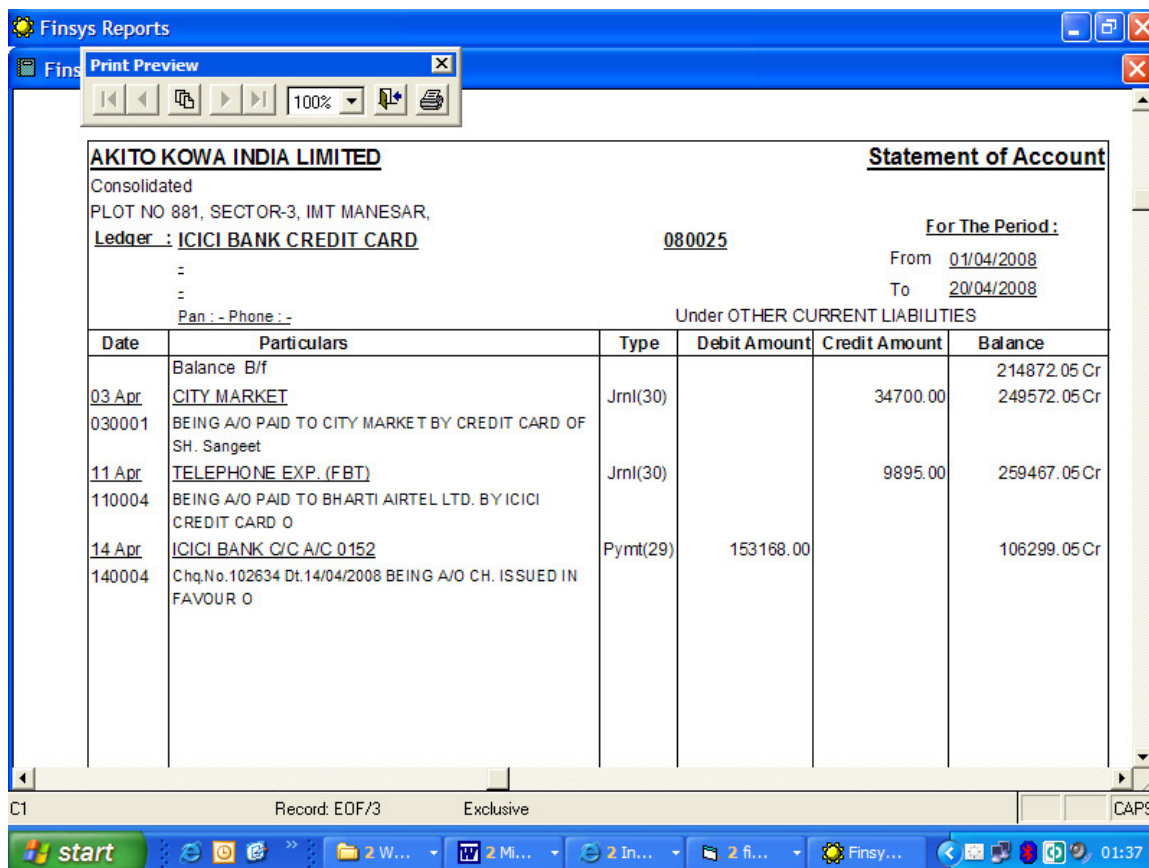
For Back issues, click on <http://www.finsys.co.in/Ecirculars.htm>

Finsys Users FAQ (Frequently Asked Question)

**How should we Account for a Credit Card in our Accounts ?**

How to treat this in our SAP, BAAN, or Finsys ERP, or packages like Tally etc

- a) Open them as a bank account in your ledger / Computer Software
- b) Enter all Payments to Credit Card, as a Contra voucher, between 2 banks
- c) Enter all Credit Card Swipes ( Merchandise purchased on Credit Card), as a Purchase made on the card , Pass your entry
  - a. Petrol Debit,                      Dr.        To ICICI Credit Card
  - b. Business Promotion            Dr.,      To ICICI Credit Card
  - c. Travelling                         Dr.        To ICICI Credit Card



For information about how to use the Finsys ERP, access the manuals on [www.finsys.co.in](http://www.finsys.co.in)

[www.finsys.co.in](http://www.finsys.co.in)

Home page of "Finsys"-( The ERP Software Solutions )

( ERP containing Detailed Auto-Finance Voucher passing, Efficiency analysis of your Production Machines and also linked to Salary punch Card machines )